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UNCLAS BRATISLAVA 000607

SIPDIS

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DEPT PASS TO USTR FOR RDRISCOLL

TREASURY FOR CHRISTOPHER GREWE

USDOC FOR MROGERS AND STIMMINS

E.O. 12958: N/A

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SUBJECT: SLOVAK ECONOMY SEES FASTEST GROWTH IN SIX YEARS

1. SUMMARY. SLOVAKIA'S REAL ANNUAL GDP GREW BY 5.5 PERCENT DURING THE FIRST QUARTER OF 2004, ITS HIGHEST EXPANSION IN SIX YEARS AND THE SECOND STRONGEST RATE IN THE CENTRAL EUROPEAN REGION. EXTERNAL DEMAND DROVE MOST OF THE GROWTH, BUT DOMESTIC CONSUMPTION ALSO INCREASED DUE TO HIGHER REAL WAGES AND LOWER INTEREST RATES. IN ADDITION, RISING FOREIGN DIRECT INVESTMENT (FDI) RENEWED CONFIDENCE IN CAPITAL INVESTMENTS. IN CONTRAST, FISCAL TIGHTENING REDUCED GOVERNMENT SPENDING. OVERALL, THESE POSITIVE TRENDS ARE EXPECTED TO CONTINUE PROVIDING SLOVAKIA WITH A BRIGHT ECONOMIC FUTURE. END SUMMARY.

2. SLOVAKIA'S REAL ANNUAL GDP GROWTH RATE OF 5.5 PERCENT FOR THE FIRST QUARTER OF 2004 EASILY OUT-PACED THE MEDIAN MARKET FORECAST OF 4.2 PERCENT. IN THE REGION, SLOVAKIA TRAILED ONLY THE POLISH ECONOMY WHICH GREW AT 6.9 PERCENT. DURING 2003, THE SLOVAK GDP INCREASED BY 4.2 PERCENT AND BY 4.7 PERCENT IN THE LAST QUARTER.

3. GROWTH WAS LARGELY DRIVEN BY EXPORTS WHICH GREW AT A 15.8 PERCENT RATE WHILE IMPORTS INCREASED BY ONLY 12 PERCENT. AUTOS, SLOVAKIA'S MAIN EXPORT ITEM, INCREASED BY A ROBUST 52.2 PERCENT DURING THE QUARTER. GROSS CAPITAL FORMATION, WHICH MEASURES INVESTMENT ACTIVITY, ALSO EXPANDED BY 4.4 PERCENT AFTER A YEAR LONG DECLINE. IN ADDITION, ANALYSTS EXPECT FURTHER GAINS IN INVESTMENT DUE TO TECHNOLOGY IMPORTS RELATED TO FDI.

4. HIGHER REAL WAGES IN COMBINATION WITH LOWER INTEREST RATES STIMULATED HOUSEHOLD CONSUMPTION TO RISE BY 3 PERCENT AFTER DECLINING THROUGHOUT 2003. (NOTE: IN ORDER TO ENCOURAGE DOMESTIC DEMAND, THE CENTRAL BANK CUT INTEREST RATES BY A TOTAL OF 325 BASIS POINTS SINCE 2002, TO REACH THE CURRENT RATE OF 5 PERCENT). THE AVERAGE NOMINAL MONTHLY WAGE INCREASED 11.2 PERCENT DURING THE LAST YEAR TO REACH USD 441, THE HIGHEST INCREASE IN SEVEN YEARS. REAL WAGES ROSE BY 2.7 PERCENT IN THE QUARTER AND THIS IS THE FIRST INCREASE SINCE 2002. GOVERNMENT SPENDING ACTUALLY DECREASED BY 2.3 PERCENT FOLLOWING A DRAMATIC 10.4 PERCENT RISE IN THE LAST QUARTER OF 2003.

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